

November 03, 2011

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Rating	Reduce
Price	Rs814
Target Price	Rs800
Implied Upside	-1.7%
Sensex	17,482

(Prices as on November 03, 2011)
Trading data

Market Cap. (Rs bn)	52.5
Shares o/s (m)	64.5
3M Avg. Daily value (Rs m)	1851.6

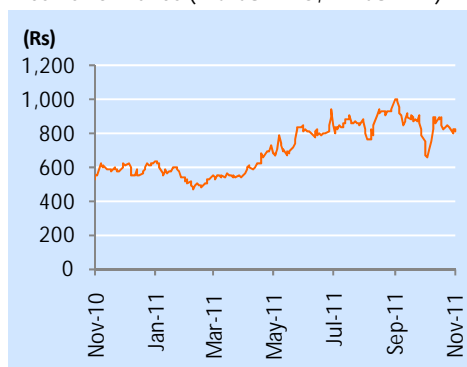
Major shareholders

Promoters	57.98%
Foreign	35.84%
Domestic Inst.	1.28%
Public & Other	4.90%

Stock Performance

(%)	1M	6M	12M
Absolute	8.1	20.4	48.4
Relative	(0.1)	26.1	63.0

Price Performance (RIC: JUBI.BO, BB: JUBI IN)



Source: Bloomberg

■ **Same-store sales (SSS) growth of 26.7%:** Jubilant FoodWorks (JUBI) reported Q2FY12 sales, EBITDA and PAT of Rs2.4bn (up 47 %), Rs436m (up 47% YoY) and Rs237m (up 28% YoY) as against our expectations of Rs2.4bn, Rs447m and Rs247m, respectively. SSS growth of 26.7%, on the base of 43.2% in Q2FY11, is commendable. During the quarter, JUBI opened 19 new stores, taking the total store count to 411. Management maintained the guidance of opening 80 new stores during FY12e. First *Dunkin* store will be rolled out in H1CY12 beginning with the metros. JUBI is doing the groundwork for Dunkin's rollout, with focus on menu designing and back-end work e.g. vendor and supply chain etc.

■ **Key Con-call takeaways:** 1) Very small signals of moderation in consumer demand; pre-emptively trying to boost demand through aggressive promotions 2) Will take one more price increase in November (taken 3 in last 12 months totalling ~10%) 3) SSS volume grew 20%+ in 2Q12; SSS grew even QoQ.

■ **Operating leverage cushions the gross margin decline:** Operating leverage (140bps decline in other expenses) neutralized the impact of higher input costs which adversely impacted the gross margins by 160bps. Higher input costs is primarily attributed to the inflation in Milk and milk products prices. However, rental and employee costs did not show benefits of high SSS growth as both the cost items remained flat as a percent of sales (employee addition of 2850 YoY)

■ **Positives in the price, maintain REDUCE:** Strong same store performance on high base reflects the superiority of Jubilant's capital efficient model. We expect JUBI to continue to benefit from the strong growth dynamics in QSR space, helped by confluence of favourable income and demographic factors. However, valuations have run-up ahead of fundamentals, in our view. At 48x and 32.8x FY12e and FY13e earnings, risk-reward is unfavourable in our view. Maintain **REDUCE**, with a TP of Rs800.

Key financials (Y/e March)	2010	2011	2012E	2013E
Revenues (Rs m)	4,239	6,781	9,945	13,981
Growth (%)	51.0	59.9	46.7	40.6
EBITDA (Rs m)	658	1,196	1,963	2,805
PAT (Rs m)	330	717	1,093	1,599
EPS (Rs)	5.1	11.1	16.9	24.8
Growth (%)	306.1	118.6	52.4	46.3
Net DPS (Rs)	—	—	—	—

Source: Company Data; PL Research

Profitability & Valuation	2010	2011	2012E	2013E
EBITDA margin (%)	15.5	17.6	19.7	20.1
RoE (%)	47.0	46.5	46.2	45.6
RoCE (%)	35.8	44.3	45.2	45.0
EV / sales (x)	12.5	7.7	5.2	3.7
EV / EBITDA (x)	80.2	43.8	26.6	18.3
PE (x)	160.1	73.2	48.0	32.8
P / BV (x)	44.9	27.4	18.6	12.5
Net dividend yield (%)	—	—	—	—

Source: Company Data; PL Research

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**Exhibit 1: Q2FY12 Result Overview (Rs m)**

Y/e March	Q2FY12	Q2FY11	YoY gr. (%)	Q1FY12	H1FY12	H1FY11	YoY gr. (%)
Net sales	2,403	1,633	47.2	2,169	4,572	2,988	53.0
Total income	2,404	1,634	47.1	2,169	4,573	2,989	53.0
Consumption of raw material	504	346	45.8	462	967	616	57.0
Purchase of traded goods	131	59	121.4	90	221	123	80.1
Staff costs	475	325	46.1	421	896	576	55.6
Rent	185	127	45.5	164	348	247	41.2
Other expenses	673	480	40.3	618	1,291	880	46.8
EBITDA	436	297	46.8	414	850	549	54.9
Depreciation	93	69	34.1	87	180	132	35.9
EBIT	343	228	50.6	327	670	416	61.0
Interest	-	1		-	-	3	
Other income	14	3		12	26	4	
PBT	357	229	55.6	339	696	417	67.2
Taxes	111	45		108	219	79	
PAT	237	184	28.4	232	468	337	38.9
As % of net revenue							
Consumption of raw material	26.4	24.8		25.5	26.0	24.7	
Staff costs	19.8	19.9		19.4	19.6	19.3	
Rent	7.7	7.8		7.5	7.6	8.3	
Other expenses	28.0	29.4		28.5	28.2	29.4	
Total expenditure	81.9	81.8		80.9	81.4	81.6	
EBITDA	18.1	18.2		19.1	18.6	18.4	
Net profit	9.8	11.3		10.7	10.2	11.3	
Tax rate	31.1	19.7		31.7	31.4	19.1	

Source: Company Data, PL Research



Key Highlights of the Conference Call

Same store growth and store opening

- Food inflation witnessed this year - one of the severest over the last many years. However, higher scale of JUBI is helping negotiate better with vendors etc.
- Very marginal impact of cannibalization – (new stores snatching sales from older stores).
- High base of SSS growth (43% in Q2FY11) resulted in softening in Q2FY12 SSS growth.
- SSS grew even on QoQ basis.
- Guidance – 20% plus SSS on annualized basis.
- Same store volume up >20%.
- 25-30 stores opening plan in Sri Lanka over the next five years.
- 80 stores opening plan in FY13 for India.
- 50% of new stores opening will be in top 10 cities.

Price increase

- Three price increases in the last 12 months (2.5%, 5% and 3% price increase in November-10, April-11 and August-11, respectively). Total price hike of ~10%.
- Intend to take one more price hike in November – still contemplating the magnitude
- Try to maintain gross margins at ~75% while taking a decision on price increase.

Consumer demand

- Immune from consumer slowdown, nonetheless, some small signals of demand moderation is evident; but very premature at this stage.
- Will be taking pre-emptive steps to stimulate demand - aggressive promotion/marketing - measures to avert any possible moderation, given the uncertain macro sentiment.

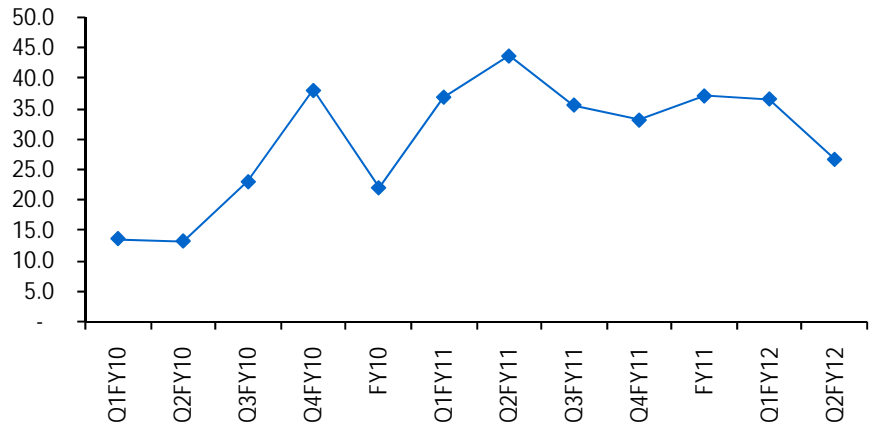
Salaries

- Every July salaries are increased for Store managers and support staff.
- Will raise the salary levels of front end staff in October.

Miscellaneous

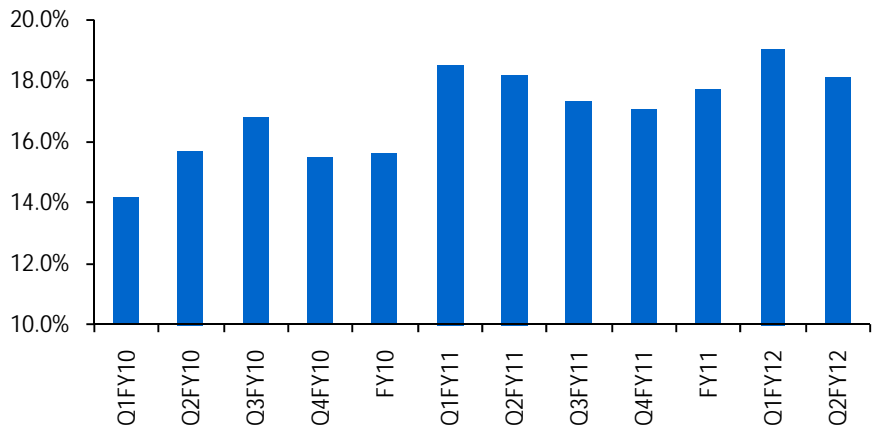
- Some of the smaller cities have matched larger cities in revenues per stores.
- Enough size for several players to come in and operate.
- ICD of Rs30 crore is due to be returned this year.

Exhibit 2: SSS growth of 26.7% is on the base of 43% in Q2FY11



Source: Company Data, PL Research

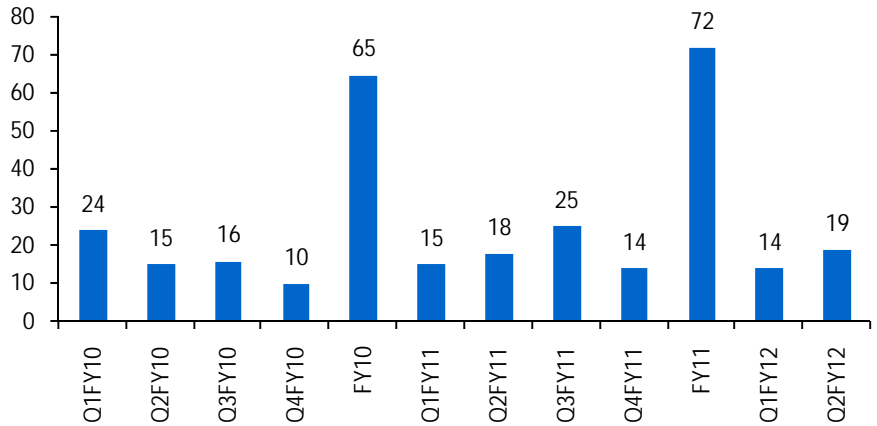
Exhibit 3: EBITDA margins flat YoY



Source: Company Data, PL Research

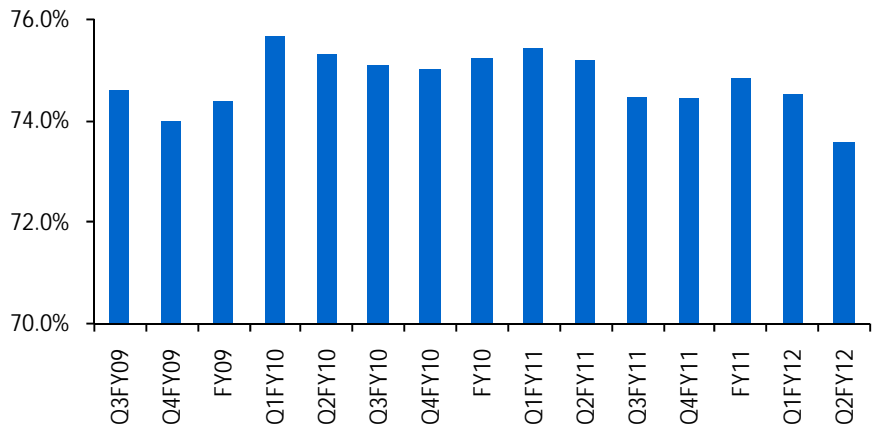


Exhibit 4: Added 19 stores in Q2FY12; plan of 80 store addition each in FY12 and FY13



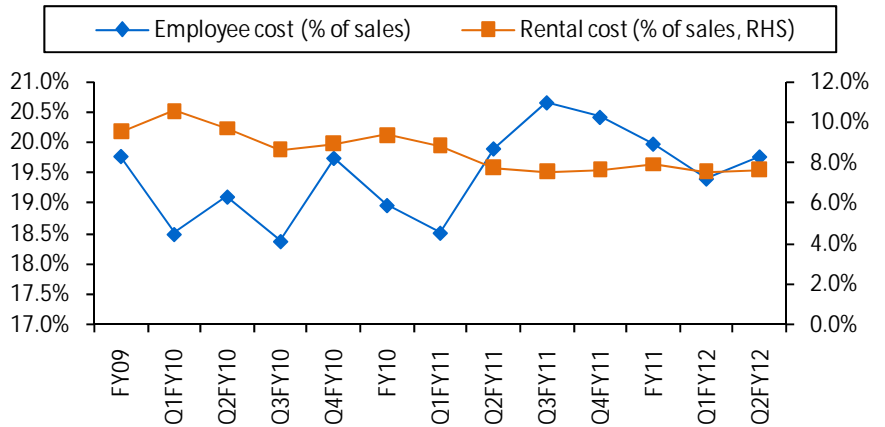
Source: Company Data, PL Research

Exhibit 5: Gross margins down 160bps YoY and 90bps QoQ



Source: Company Data, PL Research

Exhibit 6: Employee and rental costs show no leverage benefits



Source: Company Data, PL Research



Income Statement (Rs m)

Y/e March	2010	2011	2012E	2013E
Net Revenue	4,239	6,781	9,945	13,981
Raw Material Expenses	1,050	1,706	2,476	3,411
Gross Profit	3,190	5,075	7,469	10,570
Employee Cost	805	1,356	1,969	2,740
Other Expenses	1,727	2,522	3,536	5,025
EBITDA	658	1,196	1,963	2,805
Depr. & Amortization	243	293	368	453
Net Interest	83	3	—	—
Other Income	(1)	22	36	35
Profit before Tax	330	922	1,632	2,387
Total Tax	1	204	539	788
Profit after Tax	330	717	1,093	1,599
Ex-Od items / Min. Int.	—	—	—	—
Adj. PAT	330	717	1,093	1,599
Avg. Shares O/S (m)	64.8	64.5	64.5	64.5
EPS (Rs.)	5.1	11.1	16.9	24.8

Cash Flow Abstract (Rs m)

Y/e March	2010	2011	2012E	2013E
C/F from Operations	765	1,289	1,327	2,274
C/F from Investing	(523)	(899)	(838)	(1,117)
C/F from Financing	(229)	(67)	(189)	(227)
Inc. / Dec. in Cash	13	323	300	930
Opening Cash	30	70	90	368
Closing Cash	70	90	368	1,298
FCFF	121	399	589	1,457
FCFE	(617)	314	589	1,457

Key Financial Metrics

Y/e March	2010	2011	2012E	2013E
Growth				
Revenue (%)	51.0	59.9	46.7	40.6
EBITDA (%)	94.9	81.8	64.1	42.8
PAT (%)	352.5	117.6	52.4	46.3
EPS (%)	306.1	118.6	52.4	46.3
Profitability				
EBITDA Margin (%)	15.5	17.6	19.7	20.1
PAT Margin (%)	7.8	10.6	11.0	11.4
RoCE (%)	35.8	44.3	45.2	45.0
RoE (%)	47.0	46.5	46.2	45.6
Balance Sheet				
Net Debt : Equity	—	—	(0.1)	(0.3)
Net Wrkng Cap. (days)	(217)	(213)	(175)	(182)
Valuation				
PER (x)	160.1	73.2	48.0	32.8
P / B (x)	44.9	27.4	18.6	12.5
EV / EBITDA (x)	80.2	43.8	26.6	18.3
EV / Sales (x)	12.5	7.7	5.2	3.7
Earnings Quality				
Eff. Tax Rate	0.2	22.2	33.0	33.0
Other Inc / PBT	1.1	2.4	2.2	1.5
Eff. Depr. Rate (%)	10.7	10.1	10.0	10.0
FCFE / PAT	(187.2)	43.7	53.9	91.1

Source: Company Data, PL Research.

Balance Sheet Abstract (Rs m)

Y/e March	2010	2011	2012E	2013E
Shareholder's Funds	1,174	1,914	2,818	4,190
Total Debt	86	—	—	—
Other Liabilities	—	—	—	—
Total Liabilities	1,260	1,914	2,818	4,190
Net Fixed Assets	1,429	1,845	2,251	2,651
Goodwill	—	—	—	—
Investments	—	205	305	605
Net Current Assets	(169)	(167)	210	883
<i>Cash & Equivalents</i>	<i>70</i>	<i>90</i>	<i>368</i>	<i>1,298</i>
<i>Other Current Assets</i>	<i>462</i>	<i>894</i>	<i>1,174</i>	<i>1,486</i>
<i>Current Liabilities</i>	<i>702</i>	<i>1,150</i>	<i>1,333</i>	<i>1,902</i>
Other Assets	—	—	—	—
Total Assets	1,260	1,883	2,766	4,138

Quarterly Financials (Rs m)

Y/e March	Q3FY11	Q4FY11	Q1FY12	Q2FY12
Net Revenue	1,857	1,937	2,169	2,403
EBITDA	323	330	413	436
<i>% of revenue</i>	<i>17.4</i>	<i>17.1</i>	<i>19.1</i>	<i>18.1</i>
Depr. & Amortization	78	83	87	93
Net Interest	—	—	—	—
Other Income	6	9	12	14
Profit before Tax	251	257	339	357
Total Tax	61	64	108	111
Profit after Tax	190	193	231	245
Adj. PAT	190	193	231	245

Key Operating Metrics

Y/e March	2010	2011	2012E	2013E
Same Store Sales Gr.	22.0	37.2	20.0	18.0
Pricing Gr.	1.0	14.3	2.0	2.0
Gross margins	75.2	74.8	75.1	75.6
Employee costs (as a % of Sales)	19.0	20.0	19.8	19.6
Store Addition	65.0	72.0	80.0	80.0

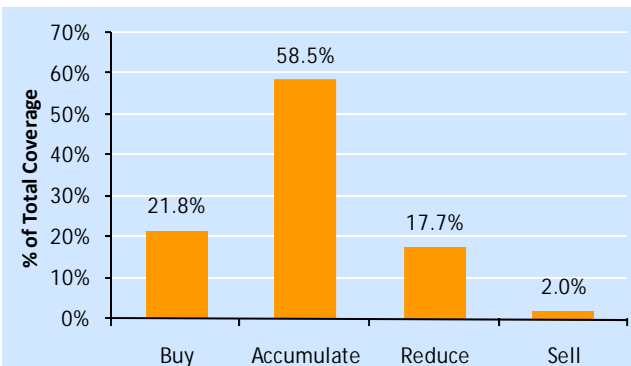
Source: Company Data, PL Research.

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Reduce	: Underperformance to Sensex over 12-months	Sell	: Over 15% underperformance to Sensex over 12-months
Trading Buy	: Over 10% absolute upside in 1-month	Trading Sell	: Over 10% absolute decline in 1-month
Not Rated (NR)	: No specific call on the stock	Under Review (UR)	: Rating likely to change shortly

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